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FINANCIAL MANAGEMENT ISSUES OF COLLEGE-AGED STUDENTS:  
INFLUENCES AND CONSEQUENCES

by

Katharine Nicole Widener

Submitted to the Honors Program Committee

in partial fulfillment

of the requirements for University Honors Scholars

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## ABSTRACT

College students have acquired a reputation of irresponsibility and impulsivity, which has contributed to the perception that they are poor managers of money. This researcher sought to establish a clearer picture of the full story behind how college students handle their finances through a comprehensive literature review. Several searches were conducted on the topics of college students, finances, money management, debt levels, and other related terms. Scholarly articles were analyzed for common themes and research patterns, and the various strings of research identified were categorized into three main headings: Financial situation, financial influences, and financial consequences.

The three major headings of this literature review were organized to best detail the “what”, “why”, and “what next” questions that arise when explaining finances. Students often struggle to make ends meet and afford their education, and many of them suffer from low income, low financial literacy, compulsive spending tendencies, and high debt levels. These can be attributed to items such as demographic factors, social factors, family socio-economic backgrounds, academic influences, psychological factors, personality, and many more. Further research reveals that students suffer from immediate stress-related health concerns as well as a wide range of difficulties in graduation success, career opportunity, and retirement planning because of today’s financial decisions. Understanding these relationships is key to better preparing the next generation for financial success.

Key Words: College students, finance, debt, financial management, money management

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# FINANCIAL MANAGEMENT ISSUES

## Financial Management Issues of College-Aged Students: Influences and Consequences

### **Introduction**

For which of you, intending to build a tower, does not sit down first and count the cost, whether he has enough to finish it—lest, after he has laid the foundation, and is not able to finish, all who see it begin to mock him, saying “This man began to build and was not able to finish”?

— Luke 14:28-30

The concept of money management is not new. It is not limited to currency, economic conditions, or societal values. The importance of money management stems, quite simply, from common sense. Money is a limited yet critically necessary resource. As such, the ability to control the movement of one’s finances is a significant factor in quality of life. Despite this, people all over the globe struggle with handling their finances and covering their cost of living. While the United States of America is considered to be among the wealthiest nations of the world, financial management struggles still exist in the Land of Opportunity.

The impact of financial management reaches all age groups, from children being supported by their parents’ income to senior citizens living with the repercussions of their retirement planning decisions (or lack thereof). College-aged students are a demographic with a unique set of circumstances that make focused studies on this group meaningful. For many, young adulthood is the time where lifelong habits and behaviors are formed. Routines and preferences are established, and decisions are made that will affect the path in life that each person will take. College students, specifically, are in a time of significant transition. They are challenged to be independent, explore the world, and

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establish an identity. It is a time of great opportunity, but with it comes many dangers.

Students are often uneducated and unguided when it comes to finances (Beierlein & Neverett, 2013; Goetz et al., 2011; Gudmunson et al., 2015; Markovich & DeVaney, 1997). This results in irresponsible spending, poor planning, and heavy borrowing, all of which can have devastating consequences at any point down the line.

This literature review seeks to tell the story of college students' finances. First, a framework is established of the reality of student financial situations, from ownership of savings accounts to acquisition of debts. Secondly, the review explores the major question of the factors that influence these financial situations and the way students make financial decisions. The final section of this thesis examines the various consequences that financial circumstances can have on college students, both short-term and long-term.

### **Methodology**

This thesis is an extensive literature review on the broad topic of college students' finances, with a research emphasis on American students. The data for this comprehensive review is drawn from a long list of scholarly literature acquired through the EBSCO library database offered through Southeastern University in Lakeland, Florida. Search terms such as "college students," "finance," "money management," and "debt" were commonly used, among many others. The search results were narrowed to peer-reviewed journal articles, with special preference given to more recent articles as well as articles cited often in other studies. Countless studies exist on financial topics, with a surprisingly small proportion of these exploring the narrower issues that this thesis is focused on. Nevertheless, this review identified major areas of research as well as smaller strings of study that will pose questions for future research.



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The goal of the literature review was to identify financial factors (relative to situation, influences, or consequences) that were either firmly linked to college students or could be linked to this population with supporting evidence from peripheral studies. Factors and themes identified were then categorized into one of three major topics: Financial situation, financial influences, or financial consequences. These topics comprise the organizational structure of the literature review, and will be used to form a clear picture of college students and their money.

### **Definition of Financial Management**

Financial management, used in this review interchangeably with money management, is a broad term with several definitions. This thesis defines it simply as the efficient and effective management of money. Regarding personal financial management, this can come about through several behaviors. Common practices that contribute to financial success or struggle include possession of a bank account, timely bill paying, utilization of an expense tracking system, savings discipline, diversification of investments, use of a retirement plan, ownership of a home, and understanding of financial concepts (Hilgert, Hogarth, & Beverly, 2003). Because college students do not yet have the responsibility of handling a lot of these financial issues, such as home ownership, the scope of financial management in the following sections is narrowed. Budgeting, paying credit card balances, savings habits, attitudes towards retirement planning, and accumulation of debt are the primary topics that the following research tends to cover in regard to this demographic.

### **Literature Review**

#### **Financial Situations**

The first portion of this literature review will detail the various aspects that define a student's particular financial circumstances. This includes their understanding of finance, their actual financial habits, their current balances, their financial aspirations, the main sources of monetary inflows and outflows, and other related topics.

#### **Financial knowledge, literacy, and awareness.**

The foundation of any ability or skillset is arguably the relevant knowledge and understanding necessary to perform such tasks. While financial literacy is certainly an influence of money decisions, the degree to which college students understand money is also a representation of financial situations. Research indicates that most people agree that financial literacy is a significant determinant of quality of life and future decision-making (Brougham, Jacobs-Lawson, Hershey, & Trujillo, 2011). Despite this, college students, along with the general American population, tend to score very low on tests of financial knowledge (Beierlein & Neverett, 2013; Goetz, Cude, Nielsen, Chatterjee, & Mimura, 2011; Gudmunson, Zuiker, Katras, & Sabri, 2015; Markovich & DeVaney, 1997).

Financial awareness, as a side effect of financial literacy, is another important factor that reflects college students' financial circumstances. Research by Brougham et al. (2011) found that, contrary to expectation, students are able to report figures such as their own credit card balances. However, they struggle more with reporting broader economic facts such as the current interest rate. Awareness also translates into financial optimism for the future. It's common for students to have an optimistic outlook on their

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future earnings potential and their ability to pay off their debts. However, research shows that these perceptions counter reality (Brougham et al., 2011).

In general, students seem to possess an awareness of the significance of financial knowledge. Kposko, Hershey, Bojórquez, and Pérez (2016) conducted a comparative study on students in the United States and students in Mexico and found that young adults from both countries were only moderately confident in their levels of financial knowledge and financial education. These same students were all highly aware of the importance of actively planning out their financial futures and ultimately, their retirement. However, the researchers questioned the actual commitment students would have to actually put this into practice (Kposko et al., 2016).

Goetz et al. (2011) administered a survey in an attempt to identify a delivery method for a personal finance course that would garner interest from students. This study led them on an assessment of financial resources both available to and desired by college students. Previous research had told them that 91% of surveyed students believed that financial counseling and education services and programs should be made available on campuses, and half of surveyed students indicated that they would take advantage of such resources (Moore, 2004). The study then discovered a substantial demand for all the proposed delivery methods for a personal finance course, affirming the college students have both the desire to gain financial knowledge and the awareness that they are currently lacking (Goetz et al., 2011). This data of such an important factor of financial health shows a major underlying component of the decisions that students make regarding their money.

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### **Financial backgrounds.**

Another important factor that influences the financial standings of college students is their background, or more specifically, their parents' financial status. Family income is the starting point for any student, and regardless of the current dependency on parental finances, this background affects college student perspectives and behaviors regarding money (Graves & Savage, 2015).

Graves and Savage (2015) researched students' abilities to process information relating to personal finance. They focused heavily on the concept of scarcity, as in a period of time a person is in an economic disadvantage such as poverty. Some students are only recently experiencing scarcity; they've left their parents' homes to attend school and are trying to support themselves off of limited income. Other students come from an impoverished household, which is a more prolonged period of scarcity. People experiencing financial scarcity are often stressed and emotionally taxed, which researchers have linked to a resulting lack of financial capabilities and poor attitudes toward money (Graves & Savage, 2015).

While financial background certainly has an impact on perceptions and behaviors regarding money, it also affects university affordability. Lower-class, low income students are offered need-based financial assistance through grants, but these do not often cover the full cost of attending college. This results in the accumulation of student loans to fill the gap (Dwyer, McCloud, & Hodson, 2012). Unfortunately, many low-income students are first-generation college students who have a lower chance of finishing their degree (Mamiseishvili, 2010). An estimated 11% of low-income, first-generation students actually earn their bachelor's degree within 6 years, which is significantly lower than the

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55% graduation rate of other students (Engle, Tinto, & Pell Institute, 2008). Low-income students are unable to afford the full cost of attending college and are oftentimes going into debt for a degree they will not receive.

It's not just lower-class backgrounds that can affect college students' abilities to pay for school. Research has shown that middle-class students can struggle with paying off debt nearly as much as, if not more than, lower-class students (Houle, 2014). Lower-income students have access to need-based financial assistance through their schools, the government, and private funding. Upper-class students have more financial resources to afford university costs. However, middle-class students often do not qualify for financial assistance and don't have adequate liquid funds to cash flow college. As a result, these students turn to loans as a primary resource for school funding, second only to family support (Christie & Munro, 2003).

### **Financial behaviors and habits.**

Research has revealed that college students are not very adept at financial management. Many students lack the discipline of budgeting and are prone to overspending (Archuleta, Dale, & Spann, 2013). According to Brougham et al. (2011), compulsive buying tendencies, defined as the lack of ability to control impulsive spending and irrational purchasing decisions, are identified more in college students than in the general population. In fact, Brougham et al. found that the prevalence rate for these tendencies among students is 6% to 15%, while the general public is estimated at about 5.8%.

Another aspect of financial behavior involves the reliance on credit cards. In 2010, Sallie Mae reported that 84% of undergraduate college students had at least one

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credit card, though the average number of cards students actually have is 4.6 (Gudmunson et al., 2015; Leclerc, 2012; Robb & Pinto, 2010). The fact that students possessing these credit cards also tend to have low income and tendencies to spend irrationally is a formula that can lead to financial disaster (Archuleta et al., 2013; Goetz et al., 2011). Researchers Roberts and Jones (2001) reported a surprising statistic that 62% of incoming college freshmen already had access to a credit card, with 50.9% already possessing credit card debt from their high school years.

Savings, investments, and retirements are not common terminology among common students. Many may not realize the importance of starting these disciplines as early as possible. Yang and Lester (2016) published an extensive list of statistics regarding whether or not students are engaging in these habits. They found that 91.3% of students had a savings account, 28% of students had investments in stocks, 21% in bank certificates of deposit, 9% in gold, 6.5% in real estate, and 6.5% in mutual funds. These numbers may actually defy expectation when it comes to students investing their money. However, it's important to note that 91.3% of students may have a savings account, but that doesn't represent actual savings behavior. Yang and Lester also found a relation between savings and investment behavior and student perceptions. The older their expected retirement age, the less likely students were to be saving and investing their money (Yang & Lester, 2016).

Another study by Kopusko et al. (2016) took a look at the differences in attitudes toward planning for retirement among college students in the United States versus Mexico. Aegon (2014) found that, despite cultural differences, people all over the world fail to plan for retirement properly and effectively. Kopusko et al. (2016) discovered

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through their own research that while students, in both Mexico and the U.S., are all confident in their intentions to begin saving for retirement once they enter the workforce, there are still questions as to whether or not these students actually will. American students did have high levels of a future-time perspective relative to Mexican students, which is grounds for better financial planning. However, students are still in danger of becoming another statistic. In 2008, Brucker and Leppel found that more than half of Americans over the age of 43 lacked any specific plans for retirement (as cited in Kopusko et al., 2016). More recently, the National Council on Aging reported that “25 million Americans over the age of 60 are economically insecure—living at or below 250% of the federal poverty level” (2015). Though students seem to be aware that they should plan for retirement, more research needs to be conducted to determine if students are actually taking the steps necessary for this or if they’re going to be one of the millions of seniors living in poverty (Kopusko et al., 2016).

### **University cost.**

The cost of attending university is a significant aspect of college students’ lives, regardless of whether or not they’re actually paying the bill personally. In 2001, the average cost of attending a public college for four years was \$11,496. This cost increased at an average of 5.6% over ten years, and in 2011, the average was \$17,131. This is nearly a 50% increase (Javine, 2013). These numbers are consistent with those reported by HanNa, Letkiewicz, and Montalto (2015): the price of public institutions increased 42% between 2000 and 2010, and the price for private institutions increased 31%.

Dwyer et al. (2012) reported that enrollment has been expanding, especially at public universities, but many states have been decreasing funding to higher education.

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This has driven costs up and created a student loan crisis across the country. Espenshade and Radford (2009) speculate that while students at private universities borrow often as well, they do tend to have more grants and scholarships as well as stronger parental financial support (as cited in Dwyer et al., 2012). However, Houle (2014) reported College Board (2006; 2010a; 2010b) statistics that showed grant aid increases have not been enough to offset rising college costs. Additionally, family contributions to higher education have increased, but middle-class incomes have not changed much, making it more challenging for families to keep up.

### **Debt levels.**

Perhaps the financial term most commonly associated with college students is debt. From credit card debt to student loan debt, college students are known for borrowing money to afford expenses beyond their limited income. This literature review finds that this association is not unwarranted.

As mentioned above, many college students possess credit cards, oftentimes several of them. 92% of students who are struggling to pay college expenses are turning to these credit cards to pay for gasoline, textbooks, and even their college tuition (Bemel, Brower, Chischillie, & Shepherd, 2016). Students who use their credit cards to pay tuition are statistically more likely to carry a balance (55%) than students who did not (38%) (Goetz et al., 2011).

There has been a dramatic increase in credit card debt among college students over the years (Gudmunson et al., 2015). Approximately 48% of student cardholders carry a balance on their credit card(s) by the time they graduate (Goetz et al., 2011). Roberts and Jones (2001) reported that 14% of cardholding students had a balance of



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\$3,000-\$7,000, and 10% had a balance of more than \$7,000. The misuse of credit is likely to continue after graduation, placing today's students at a greater financial risk than those of the past (Gudmunson et al., 2015; Lyons, 2004).

Despite the high risks of credit card debt, students are faced with an even greater threat that is arguably the most common area of focus for researchers studying student finances. Student loan debt has been a rising problem over the last decade, as an increasing number of students turn to borrowing to fund their education. The statistics from different studies over the years reflect this.

In the 2007-2008 academic year, an estimated 35% of undergraduate students took out student loans (Avery & Turner, 2012). The median student loan amount for graduating seniors was estimated to be \$15,123 by the end of 2008 (Dwyer et al., 2012). By 2009, that estimate increased to \$24,000 (Project on Student Debt, 2011). In 2010, the number had risen yet again to \$25,520 with approximately two-thirds of students graduating with student loans (Jackson & Reynolds, 2013; Javine, 2013; Project on Student Debt, 2011).

In 2010, the cumulative student loan debt in America surpassed cumulative credit card debt for the first time when it reached \$1 trillion (Federal Reserve Board, 2010; Houle, 2014; Jackson & Reynolds, 2013; Javine, 2013; Lewin, 2011). Dwyer et al. (2012) reported that in 2012, the percentage of students taking on debt to graduate was still two-thirds. This number increased a little to 69% in 2013, with the average debt number reaching \$28,400 (Yang & Lester, 2016). The cumulative student loan debt reached \$1.3 million in 2014, and is approaching \$1.5 today (Yang & Lester, 2016).

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Whether or not student loans can be considered “good debt” is often a subject for debate. While there are often very negative associations with it, some scholars propose that student loans are necessary. College is difficult to afford for many, and loans provide the means for more people to receive an education. Some researchers have even claimed that student loans increase access and chances of graduation for minority students who tend to come from impoverished backgrounds (Jackson & Reynolds, 2013). Avery & Turner (2012) established through their research that education loans can support and encourage college graduation rates, but there are diminishing returns as these debt levels get too high.

However, student debt is still a dangerous burden for any individual to carry (Archuleta et al., 2013; Goetz et al., 2011). Some students recognize this and take measures to avoid student loans. Many students specifically choose close-to-home colleges and schools in locations where they can get jobs in order to avoid debt (Callender & Jackson, 2008). In fact, in 2016, four in five students chose an in-state college just to avoid higher costs (Sallie Mae & Ipsos, 2016). Another study estimates that out of all students at four-year institutions who are eligible for student loans, one in six deliberately choose not to take on such debt (Cadena & Keys, 2013).

Cost of college and the avoidance of student loans seems to factor heavily into college-related decisions made by both students and their families. Sallie Mae and Ipsos (2016) worked together to conduct telephone interviews with 799 parents and 799 undergraduate students regarding college funding for the 2015-16 academic year. According to the results, 67% of families claimed that price was a significant factor in their school decisions. Additionally, 55% of families turned away from prospective

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schools solely because of costs and 44% of families factored in financial aid awards as a significant determinant of school acceptance. They also found that 40% of students were not attending the school they had originally wanted primarily because of financial considerations (Sallie Mae & Ipsos, 2016).

Sallie Mae and Ipsos (2016) further uncovered funding sources for college. They found that the top three funding sources, in order, were scholarships and grants, parental contributions, and student borrowing. Specifically, 23% of students had zero financial support from their families for college costs, while 23% were solely supported by their families, making no contributions of their own. The average college cost for the 2015-16 academic year was about \$23,000. To pay for school, 25% of families and students used federal student loans, 8% used private loans, 5% used credit cards, and 6% used loans from other sources (Sallie Mae & Ipsos, 2016).

### **Financial Influences**

After looking at the studies regarding what college students' financial situations tend to look like, the question remains—Why? The literature on the influences of student finances is extensive, but several factors appear consistently throughout the research. These factors range from demographic variables such as gender to personal values such as materialism (Archuleta et al., 2013; Hogan et al., 2013; Roberts & Jones, 2001). This literature review will identify major influencing variables that impact students in an attempt to better understand their financial pasts, presents, and futures.

### **Demographics.**

Stereotypes regarding gender abound, especially when it comes to money. Several researchers focus specifically on this relationship, while others simply make observations

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based off of the demographic questions in the beginning of their surveys. Several studies have found that men often score higher on financial literacy tests than women (Beierlein & Neverett, 2013; Dvorak & Hanley, 2010; Lusardi & Mitchell, 2007; Peng, Bartholomae, Fox & Cravener, 2007). It also appears that women tend to have less interest in both money and taking any personal finance courses compared to men (Beierlein & Neverett, 2013; Chen & Volpe, 2002).

Gender differences in regards to spending are also prevalent. One study found that women were more likely to regret a purchase and to write a check with insufficient funds (Archuleta et al., 2013). Women also tend to report higher credit card balances (Hogan, Bryant, & Overmyer-Day, 2013; Pinto, Mansfield, & Parente, 2004). Compulsive buying tendencies appear to be significantly higher among women than men (Brougham et al., 2011), though a study by Koran, Faber, Aboujaoude, Large, & Serpe (2006) reported similar rates of compulsive buying among both genders. This difference may be explained by age, as Helga Dittmar found that the gap between compulsive buying tendencies among genders are lessened among younger samples (2005). This implies that younger men are more willing to shop for recreation. Both genders have admitted to their respective areas of preferred spending. Men tend to overspend on food and entertainment, while women tend to overspend on consumer goods (Graves & Savage, 2015).

In regards to perceptions of money, men seem to gravitate more towards a desire for money. Fatoki (2015) discovered that men are more likely to have a high love of money. Males are more likely to value importance, success, and wealth, leading to a desire for money to achieve these. While women seem to struggle more with financial literacy and spending, men tend to focus on the accumulation of money. While this is

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often a positive trait for supporting livelihoods and families, a high love of money trait can lead to greed, corruption, and unethical practices. However, the researcher speculates that, while historical women cared less for money because men were the assumed breadwinners, women of today are more present in the workforce and are taking on greater financial responsibilities. This may lead to an increase in love of money among females over time (Fatoki, 2015).

As mentioned above, age is another variable that mediates even the financial differences between genders. In fact, research has shown consistently that age and compulsive buying are negatively correlated (Brougham et al., 2011; Dittmar, 2005). Additionally, debt tends to increase along with age, with older students and upperclassmen accumulating greater amounts of debt than their younger peers (Hogan et al., 2013; Pinto et al., 2004).

Several studies have also found that race and ethnicity are factors affecting student finances, especially debt levels. For one, minority groups are at a much higher risk of credit card debt (Grable & Joo, 2006; Hayhoe, Leach, Allen, & Edwards, 2005; Lyons, 2004). Students from other cultural backgrounds may have different materialism and time perspectives, contributing to a differing view of money management or even a complete lack of interest in finance (Beierlein & Neverett, 2013; Koposko et al., 2016). Evidence also shows that Hispanic students take on more student loan debt than White students (Price, 2004).

Koposko et al. (2016) performed a comparative study on American students and Mexican students. Their research found a range of similarities and difference between the two neighboring countries. Adults (notably not restricted to young adults) from both

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countries tend to test low on financial knowledge, though they had found a 2015 cross-national examination by Klapper, Lusardi and Van Oudheusden that indicated 57% of adults were financially literate compared to 32% in Mexico (as cited in Koposko et al., 2016). The authors discovered that Mexican students had higher levels of retirement goal clarity than American students, likely out of a desire to contradict the economic conditions most of their population faces. Additionally, students from the United States had a stronger future time perspective (the extent to which one thinks about and plans for the future) than Mexican students. This result was predicted based on previous research that proved a linear time concept in the U.S. versus a circular time concept in Mexico; the former results in stronger future orientations, the latter in stronger present-day orientations. Additionally, Mexican students place higher importance on parental lessons regarding saving, whereas American parental lessons are mediated by a variety of other constructs. The combination of all of these factors show a heavy influence of culture on the financial perceptions and practices of students, even if these Mexican students were to seek higher education in the United States (Koposko et al., 2016).

Concerning student loan debt, researchers seem to most often focus on the variations between black students and white students. According to one study, African Americans are 26.5% more likely to have accumulated student loans over \$10,000 and 25.3% more likely of accumulating over \$20,000 (Javine, 2013). The fact that African American students take on more student debt than white students has been confirmed repeatedly (Houle, 2014; Hu & St. John, 2001; Jackson & Reynolds, 2013; St. John, Paulsen, & Carter, 2005). Researchers explain this using the fact that black students tend to come from poorer economic backgrounds, which has created a financial disadvantage

that affects their situation as they enter college (Hu & St. John, 2001; Jackson & Reynolds, 2013; St. John et al., 2005).

### **Parental influence and backgrounds.**

Because college students are still young and often partially dependent on their families, their finances are heavily impacted by their parents' statuses and other familial factors (Charles, Roscigno, & Torres, 2007). This financial background is the foundation for student perceptions of money, financial behaviors, and financial need.

Students who come from families with a higher socio-economic status, determined by factors such as income and ownership status, tend to be less risky with their money and often have less need for student loans (Javine, 2013). Charles et al. (2007) also found a relation between parental class and the degree that students struggle with handling their money. Some research has also found that young adults from step-families and single-parents households are much more likely to accumulate student loan debt than students from two-parent households, likely explained by findings that step and single-parent families do not contribute as much to college expenses (Henretta, Wolf, Van Voorhis, & Soldo, 2012; Houle, 2014).

Students from advantaged backgrounds are often assisted by their families, reducing their need to borrow money (Houle, 2014). High income parents are more likely to have saved for and more able to pay for their children's college costs (Choy & Berker, 2003; Steelman & Powell, 1991). Heller (2006) found that merit-based financial aid is mostly offered to high-performing young adults from socioeconomically advantaged families, suggesting that these students are further protected from debt due to their access to such assistance (as cited in Houle, 2014). Parents with higher education levels,

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regardless of income, also tend to find ways to keep their children from accumulated student loan debt. These parents tend to have a clearer understanding of non-debt financial aid options (Hossler & Vesper, 1993), they spend more time planning to pay for college (Charles et al., 2007), they actually manage to save more for college (Steelman & Powell, 1991), and they contribute more money to their children to support them while they're in school (Mauldin, Mimura, & Lino, 2001). One study also found that parents with a higher education are more likely to borrow money to finance their children's schooling, rather than have the student borrow (Cha, Weagley, & Reynolds 2005). However, young adults from more educated families tend to pursue higher degrees and/or attend more expensive, elite universities for longer periods of time (Alexander, Holupka, & Pallas, 1987; Grodsky & Jackson, 2009).

Despite the apparent negative relationship between parental income and student debt, Houle (2014) explored the concept of the "middle-income squeeze," which suggests that the relationship is not as straight-forward as one may think. This theory states that young adults from middle-income families may actually have accumulated more student loan debt than both low-income families and high-income families. It is worth noting that Houle focused his study on parental income rather than parental education, explored above. Based on this, middle-income students struggle with qualifying for non-debt financial aid because much of it, especially grant-based aid, is need-based and thus offered more to low-income families. The Free Application for Federal Student Aid (FAFSA) often determines an expected contribution that families are not realistically able to achieve, which can result in as much as \$10,000 of excess college expenses for each academic year (Choy & Berker, 2003). High-income families possess greater capital for



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paying for college, while middle-income families lack the resources expected from them to pay those same expenses (Houle, 2014).

Graves and Savage (2015) studied economic scarcity and found that the duration students have had to experience such financial disadvantage affects how they approach money today. Duration of scarcity has affected several cognitive and behavioral functions of individuals. The researchers did discover that students who have endured economic disadvantage for longer periods of time struggle more with converting financial knowledge into financial behavior, possibly due to a lack of positive associations with money (Graves & Savage, 2015).

Financial socialization during childhood has shown significant impacts on the financial behaviors of students. Financial socialization is defined as “the process of acquiring and developing values, attitudes, standards, norms, knowledge, and behaviors that contribute to the financial viability and individual wellbeing” (Danes, 1994, p. 127). In research, this concept is often tied closely to parental influence using the term “family financial socialization,” referring to how students’ “families approached values, attitudes, and behaviors that relate to a student’s financial viability and well-being” (Gudmunson & Danes, 2011). Research has shown links between family life and the perceptions of money that influence how students internalize concepts of money and make financial decisions (Graves & Savage, 2015). The United States is outranked by several countries, including Mexico, when it comes to how often parents talk to their children about money, hurting students’ chances of making responsible, educated financial decisions later in life (Koposko et al., 2016). However, U.S. students seem to attribute their savings knowledge and behavior to parental influence (Koposko et al., 2016). However, according to the

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same study, this parental influence on saving did not translate into a positive impact on retirement planning by students. This indicates that while parents certainly influence students' finances, in America, other factors come into play that can intervene with their impact.

### **Financial independence.**

On the other side of parental influence is financial independence, where students' decisions are impacted by either their separation from parental support or their desire to make their own choices. Javine (2013) found that independent students received little to no assistance from their families and were at a higher risk for student loan debt out of need. However, Brougham et al. (2011) found higher levels of financial awareness and lower rates of compulsive buying among financially independent students, as they would face the consequences of their own decisions. This implies that while student loan debt is harder for students, especially independent students, to avoid, debts more closely related to personal choice are impacted differently by the same variables.

Similar to the concept of financially independent students, emerging identity during the college years results in students desiring to transition from dependent children to independent adults. This can often lead to hasty decision-making and places students at a higher risk of developing compulsive buying habits as they learn how to spend money wisely (Brougham et al., 2011). This can also lead to credit card misuse, as credit offers a spending power students likely didn't have while living with their parents (Leclerc, 2012). Hoover (2001) claimed that "when you get to college, credit cards are one of the many ways of proclaiming. . .freedom from Mom and Dad" ("I've Learned My Lesson," para. 1).

### **Academics.**

Students lives are heavily influenced by their academic environment, as their primary focus during these years is supposed to be their education. A few studies have been conducted to see if various academic variables such as year, major, and GPA have any affect on how students view and handle their money. Javine (2013) concluded that older students who have been in school for longer consistently take on more debt than their younger counterparts, as confirmed by other researchers (Hayhoe et al., 2005; Jones, 2006; Norvilitis et al., 2006; Pinto et al., 2001). Upperclassmen have a much higher probability of accumulating student loans over both \$10,000 and \$20,000 (Javine, 2013). However, despite the fact that students continue to borrow the longer they're in school, older students have been found to have greater financial knowledge than lowerclassmen (Chen & Volpe, 1998).

As different types of students are drawn to different majors, it is not a far reach to assume that area of study is a variable that may influence financial perceptions and behaviors. In particular, many researchers focus on business versus non-business majors. Business students tend to score higher on tests of financial knowledge than their non-business peers, such as arts and education majors (Chen & Volpe, 1998). Business students, along with science and social science majors, are more likely to take a personal finance course and demonstrate more interest in learning about money (Beierlein & Neverett, 2013). On the other hand, research has also indicated that business students are more likely to develop a love of money, often leading to unethical financial practices, selfishness, and greed (Elias, 2013; Fatoki, 2015).

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The evidence is inconclusive regarding levels of debt across various majors. Harrast (2004) found students in majors with “low vocational relevance such as political science, sociology, and special education” would obtain excessive levels of debt, even in cases where education costs were similar to other majors. However, Thomas (2000) found that students studying in fields with higher earnings potential, such as engineering, accumulated more debt than other majors, perhaps due to income optimism. Sallie Mae and Ipsos (2016) reported that these engineering, architecture, math, and science students were spending much more for college each year because they consistently showed a belief that it was an investment for their futures. Interestingly, psychology majors were paying the most for college, at about \$29,507 a year, while often dismissing financial considerations regarding their educational choices. These psychology students were also borrowing nearly twice as much as the average student, despite their 11% lower starting salary. This may be tied to the fact that 95% of psychology students believed their degree was required for their career. In contrast, visual, performing and liberal arts students were least likely to believe their degree was required for their education while placing a heavier emphasis on cost factors in their education decisions (Sallie Mae & Ipsos, 2016).

Academic performance is another potential indicator of financial behaviors. Javine (2013) found that students with a lower GPA tended to have higher levels of student loan debt, with a high probability of accumulating over \$10,000, likely due to failed courses keeping students in school longer. Beierlein and Neverett (2013) actually found that students with higher verbal SAT scores and higher GPAs are less likely to be interested in taking a personal finance course, perhaps because they possess or believe they possess the financial knowledge already. Pinto et al. (2001) could find no evidence

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that academic performance affects number of credit cards held or outstanding credit balances, but Adams and Moore (2007) found a link between low GPA and high-risk credit behavior. Students who spent less time studying were more likely to engage in drinking and shopping (Hogan et al., 2013). Similarly, the more a student indulges in undesirable academic behaviors such as missing classes and letting grades fall, the more likely they are to feel anxious and turn to drinking and excessive spending (Hogan et al., 2013).

There does seem to be a pattern of low academically-performing students and more hours spent working (Pinto et al., 2004; Pinto, Parente, & Palmer, 2001). Hogan et al. (2013) found a positive relationship between hours working and undesirable academics. “Students who owe more credit card debt, those who feel in financial trouble, who work more, and who exhibit more undesirable academic behaviors feel more strongly that work contributes to less time and energy for studying” (Hogan et al., 2013, p. 110). However, Javine (2013) found that students who worked and earned a monthly income between \$500 and \$999 were much less likely to have student loans in the \$10,000 and \$20,000 ranges. Mamiseishvili (2010) claimed that the affect working can have on students’ academic success is mediated by that student’s priorities. While the students in the study by Hogan et al. (2013) blamed their failing studies on their need to work, Mamiseishvili’s (2010) research indicates that if employed students believe education is their greatest responsibility, their college success will not be affected by the hours they work, thus eliminating the negative effects of student employment. Students who experience the negative effects of employment on their education are feeling detached and uninterested in pursuing their degree.

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Most students choose to work in order to contribute to their college expenses. Sallie Mae and Ipsos (2016) reported that students who worked during the academic year funded 15% of their college costs, while students who worked only during breaks or not at all funded only about 7%. Parents of working students fund only 27% of college costs compared to 31% funding for students who don't work and 33% for students who work during breaks. However, students' decisions to work were unrelated to whether their families were low-, middle-, or high-income, indicating that financial need is not the primary driver of student employment. Instead, working students seem to make their decisions out of a desire to be more responsible and independent with their money, and generating their own earnings has a positive impact on financial awareness. Working students were more proactive in making college more affordable, more disciplined in controlling their personal spending, and more intentional about pursuing a profitable field of study while in school. However, most working students are not working to gain experience in their fields, with 3% obtaining an internship and 4% having an entry-level position in their field. Instead, 20% of working students worked in the food industry, 20% in retail, and 17% working on-campus jobs. Additionally, a quarter of working students reported that it will take them more than five years to earn their bachelor's degree (Sallie Mae & Ipsos, 2016).

### **Banking and credit industry.**

Dwyer et al. (2012) identified a relationship between student borrowing and the historic expansion of credit in the banking industry. These researchers claimed that the deregulation of the banking industry combined with the increased investment in the United States' financial sector that increased capital available for loans made those

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previously denied credit more vulnerable. Young adults, who often have a harder time being approved for borrowing, became “prime targets for the expansion of credit” (p. 1135). Students in particular were targeted because they were more likely to borrow when their responsibility to repay their education debt was delayed into “an abstract future in a world yet to be attained” (p. 1135); in other words, they took advantage of young peoples’ tendency to lack future time perspective. These factors were all followed by a dramatic increase of student debt in the 1990s and into the 2000s (Dwyer et al., 2012).

Similarly, the credit card industry favors college students. Credit cards are extremely easy to acquire, and the industry is known for marketing heavily to young adults in order to gain their customer loyalty early on (Leclerc, 2012). This is true despite the fact that the Credit Card Accountability Responsibility and Disclosure Act of 2009 was implemented to reduce marketing to college students (Goetz et al., 2011). Hoover (2001) claimed that banks are deceptively willing to take a risk with these students based on an assumption that they will carry high balances and only make the minimum monthly payments. This assumption is often true, as young adults find their actual income and the amount of credit available to them are unevenly matched, leaving students vulnerable to the temptations of overspending or using credit to cover expenses they otherwise lack the resources for (Chen & Volpe, 1998; Goetz et al., 2011). Because of this, credit card companies benefit from the interest students are paying for an average of about 15 years (Hoover, 2001).

### **Financial knowledge and literacy.**

As established previously, college students along with the general American population often score very low on tests of financial knowledge and literacy (Beierlein & Neverett, 2013; Goetz et al., 2011; Gudmunson et al., 2015; Markovich & DeVaney, 1997). Financial knowledge has a strong link with financial behavior, making it a powerful influence over students' money habits (Archuleta et al., 2013; Beierlein & Neverett, 2013; Gudmunson et al., 2015; Javine, 2013; Norvilitis et al., 2006). Hilgert, Hogarth, and Beverly (2003) established significant relationships between financial knowledge and cash-flow management, credit management, savings, and investment. On the other side of this, a lack of personal financial knowledge is associated with a lack of savings, failure to budget, failure to pay debts on time, and the purchase of unplanned items (Leach, Hayhoe, & Turner, 1999). Possessing greater financial knowledge was not associated with lower levels of compulsive buying, however, indicating that there is another driver for student impulse purchases that overwhelms the decision-making influence of financial knowledge (Brougham et al., 2011).

Norvilitis and MacLean (2010) found that student financial knowledge was a predictor of debt levels and overall financial health. Norvilitis et al. (2006) also confirmed that lower financial knowledge was strongly tied to higher debt levels. There seems to be mixed results on the relationship between financial knowledge and credit card balances, however (Hogan et al., 2013).

Financial knowledge is a predictor of the financial planning expectations students have (Koposko et al., 2016). American students were found to have higher levels of retirement goal clarity as a result of their financial knowledge (Koposko et al., 2016).



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Students with higher levels of financial knowledge and literacy are more optimistic about their chances of attaining their retirement goals and more likely to be saving money for future events (Yang & Lester, 2016). These results indicate that the more students know and understand about money, the better their chances of having a beneficial future time perspective regarding their financial management.

Goetz et al. (2011) claimed that the poor financial decisions students are making combined with their low scores on tests of financial knowledge, students must be exposed to financial education or counseling. This seems especially true because student financial literacy and behaviors follow young adults after graduation as they join the workforce and begin handling larger sums of money (Volpe, Chen, Liu, 2006). Moore (2004) even found that 91% of college students felt that financial counseling and education services should be available on campus, with 48% of students claiming they would actually take advantage of these services.

In this vein, it would be important to establish the effectiveness of financial education, but research thus far is mixed. Mandell (2009) found that students who had taken a personal finance class in high school showed no improvements in financial literacy over students who had not taken this course. Danes (2004) found an improvement in the self-reported financial behavior of students who had completed a personal finance curriculum. Peng et al. (2007) found a link between college personal finance courses and investment knowledge that did not exist with high school courses. Mandell and Klein (2009) also failed to find proof of the effectiveness of high school finance courses. Research seems to lean most often towards college courses as more effective at teaching personal finance effectively compared to high schools (Borden, Lee, Serido, & Collins,

2008; Peng et al., 2007), but again, these results are not always consistent. Beierlein and Neverett (2013) speculate that the variable in determining the effectiveness of financial education is motivation and student choice. Mandell and Klein (2007) found that high school seniors who reported a stronger understanding of the importance of financial decisions would score higher on a literacy test. Because most high school finance courses are required, compared to optional college courses, it is possible that students who are forced to learn money management are less likely to apply any concepts from the curriculum (Beierlein & Neverett, 2013). Motivation is a significant driver for financial literacy.

### **Outlook and perspective.**

Ando and Modigliani (1963) presented the life-cycle hypothesis of saving, which claimed that people base their consumption levels on their anticipated income. This applies heavily to young adults as they face a near future where they will likely be earning more money than they have previously. The danger lies in how often students overestimate this earnings potential while underestimating future expenses and the time it will take to pay off their debts (Goetz et al., 2011; Hayhoe, 2002). Student outlook affects their general sense of financial well-being, related to feelings of security and peace regarding money (Chan, Chau, & Chan, 2012).

Yang and Lester (2016) surveyed students about their expectations for the future. They found that 42% of students expected to find a job after graduation, 48% expected to attend graduate or professional school, and 10% expected to do both. Additionally, 26% of students expected their starting income after graduation to be between \$40,000 and \$45,000, with 22% expecting their income to be above \$50,000. They also discovered

that 33% of students expect to retire between 60-65 years of age, with 13% expecting to retire before age 50. However, only 6% of students actually expect to meet their monetary retirement goals. Only 23% of students expect it to be “very likely” they can reach their goals, 35% claiming “likely,” 33% claiming “somewhat likely,” and 3% claiming “not at all likely.” Interestingly, optimism about meeting financial goals was linked directly with students’ self-reported levels of financial knowledge (Yang & Lester, 2016).

Students’ abilities to form clear and achievable goals are affected by their degree of future time orientation, or, the extent to which they enjoy thinking about the future (Hershey & Mowen, 2000). Students tend to be more present time oriented than older adults, which may lead to struggles with forming an accurate picture of future finances (Brougham et al., 2011). American students, however, are more likely to be future time oriented over students from other cultures that tend to be present time oriented (Koposko et al., 2016). These time orientations may affect retirement planning activities, though there are inconsistent results regarding this (Koposko et al., 2016). Time orientation has, however, been linked to uncontrolled spending in that lower future time orientation is associated with higher levels of compulsive buying behavior (Joireman, Kees, & Sprott, 2010).

### **Financial self-efficacy.**

Along the same thread as perceptions, self-efficacy is a perception of one’s ability to accomplish a certain task. Research has found that students who rate themselves as more financially capable are more likely to exhibit positive financial behaviors and attitudes. Specifically, Chan et al. (2012) found that they are more likely to plan for

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positive financial goals, take action to achieve those goals, and succeed in achieving those goals and staying out of debt. Yang & Lester (2016) found similar results when students who rated themselves as more knowledgeable and capable with money were more likely to save and make positive financial decisions. Chan et al. (2012) went on to conclude that these results would apply to credit card usage and borrowing behaviors as well. Higher levels of financial self-efficacy have been linked to lower debt levels, fewer financial problems in general, lower stress related to money, increased savings, and greater financial happiness (HanNa et al., 2015). Student confidence in their financial capabilities has a strong influence over their future feelings of financial security (Chan et al., 2012). At least among college students, financial self-efficacy is positively related to financial knowledge (Heckman & Grable, 2011).

### **Personality and values.**

Values and beliefs have a strong influence over the choices people make on a day-to-day basis. College students tend to value certain qualities that older adults have either moved on from or not experienced, as different generations experience different aspects of culture.

Roberts and Jones (2001) found that today's college students were raised in a culture that places greater value on power and prestige through financial status than previous generations. As such, students today are more likely to desire wealth and possess materialistic values than students in past generations. Materialism can be defined in many ways, ranging from concepts of matter to consumer culture, but it basically refers to the belief in the contribution that possessions and spending lead to happiness and success, ultimately creating a life-style of material gain (Richins & Dawson, 1992).

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Material possessions are often viewed as a status symbol and a reflection of self-worth (Roberts & Jones, 2001). People who highly value the kinds, quantities, and qualities of objects they acquire are considered materialistic. College students are especially susceptible to the influence of materialism because they are coming of age and trying to establish a successful identity (Brougham et al., 2011). This results in students spending money on possessions to gain status, regardless of functionality or even preference (Brougham et al., 2011). Further research has linked materialism with compulsive buying tendencies in college students (Brougham et al., 2011; Joireman et al., 2010).

O'Guinn and Faber (1989) define compulsive buying as "chronic, repetitive purchases that becomes a primary response to negative events or feelings. The activity, while perhaps providing short-term positive rewards, becomes very difficult to stop and ultimately results in harmful consequences" (p. 149). There is an extensive list of variables that have been linked with compulsive buying tendencies.

Joireman et al. (2010) identified impulsiveness as a personality factor closely tied with compulsive buying behavior. It has been linked with low self-esteem, high narcissism, depression, anxiety, and stress. The researchers also found a positive relationship between compulsive buying tendencies and present time orientation, which may explain why college students are so susceptible to this behavior. Compulsive shoppers are more likely to engage in other risky activities such as smoking, drinking, and unprotected sex. They are also more likely to misuse credit cards, own more credit cards, and carry higher credit card balances (Joireman et al., 2010).

Another study by Brougham et al. (2011) found similar relationships. They found that impulsiveness is closely related to compulsive buying and, ultimately, credit card

misuse. This article, however, expanded on the pattern of emotions experienced by compulsive shoppers. For one, compulsive shoppers experience mood instability and shop to regulate that mood. Shoppers experience a mix of negative and positive emotions while shopping and directly after shopping, mediated by external conditions such as bargains. This implies that young compulsive shoppers' emotions are driven by their shopping achievements, which reinforces the theory of materialistic motivations among young adults. From here, the researchers supported the findings of Joireman et al. (2010) by proving the existence of financial irresponsibility among compulsive buyers. There was a negative relationship between money management skills and compulsive buying levels among college students (Brougham et al., 2011).

Part of what contributes to compulsive buying and similar behaviors is time orientation. The ability to focus on future consequences of today's actions greatly influences decision-making, especially among college students who are more likely to focus more on the present and short-term satisfaction, as established above. The consideration of future consequences, or CFC, was studied by Joireman et al. (2010). Individuals with high levels of CFC, as in they are more likely to think about future consequences, are less likely to be impulsive and more likely to be financially responsible. These people were also more likely to pay down their debts to keep them manageable. People high in CFC were more likely to invest in a hypothetical 401(k) fund as well, according to research by Howlett, Kees, & Kemp (2008). Joireman et al. (2010) also found that CFC had a negative relationship with compulsive buying tendencies, indicating that compulsive buying behaviors are an attempt to achieve short-term satisfaction. CFC moderates the impact that compulsive buying can have on credit card

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debt levels in that the purchasing relationship with debt was stronger as future considerations were weakened.

Psychological factors are a largely researched area when it comes to understanding what contributes to financial behaviors. Students with different attitudes towards money and spending, beliefs, values, and personality characteristics all experience finance differently. Students with low self-esteem may struggle with overspending as a way to compensate for feelings of worthlessness (Zhang, 2009). Locus of control can affect how students feel about their money, influencing their confidence in financial management and their anxieties about their fiscal situation (Norvilitis, Szablicki, & Wilson, 2003; Pinto et al., 2004). When it comes to these psychological factors, the list is long, the variables diverse, and the research contradictory (Hogan et al., 2013). The important takeaway from the research is that psychological factors can influence financial management, but they can just as easily be mediated or even negated by other variables.

### **Other debt and financial stress.**

Students often find themselves carrying several different kinds of debt. Lyons (2004) reported that students at-risk for education debt carry at least \$1,000 of other types of debt. Javine (2013) found that student loan debt seems to be affected specifically by credit card debt. Students with high credit card balances and who are financially independent from their parents are 16.8% more likely to also have student loans over \$20,000 (Javine, 2013). The more credit card debt a student has, the more they tend to work and the worse their spending behaviors are (Hogan et al., 2013). This consumer financial delinquency can actually affect academic behaviors, such as attendance and

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commitment to good grades, which can affect merit-based financial aid and thus increase the need for student loans (Hogan et al., 2013).

Interestingly, students who become stressed about their finances were prone to negative financial practices (HanNa et al., 2015). HanNa et al. (2015) found that students stressed about not being able to afford what they need or save for emergencies were less likely to save regularly, make their payments, experience positive emotions with their purchases, and feel confident in their financial management. These anxious students are then likely to engage in inappropriate behaviors such as drinking or excessive shopping which can then drive up credit card balances and repeat the cycle.

### **Financial Consequences**

Financial management is a significant skill for anyone to possess because money can impact several other major areas of life. While money has power of material and economic worlds, it also impacts mental health, psychological health, and social health (Bemel et al., 2016). It affects students' abilities to succeed, and adults' abilities to pursue a career (Dwyer et al., 2012). It has power over marriages, parenting, and spirituality (Avery & Turner, 2012). Financial health has a ripple effect into the rest of a person's life, and the lives of those around them. For this reason, many researchers have chosen to focus their studies on the varying effects that financial situations can have on students and/or adults.

### **Inherent risk.**

Poor financial situations can have their own inherent risk. The most obvious situation that carries such risk is debt. Many students take on extremely high levels of student loans, and thus create for themselves unmanageable levels of financial risk



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(Avery & Turner, 2012). Approximately 50% of new graduates are unemployed or underemployed, and they'll likely see their first loan payment is due long before they receive their first paycheck (Archuleta et al., 2013). As a result, this debt will likely continue long into mid-life and sometimes even old age (Archuleta et al., 2013). The existence of this risk can greatly limit students' opportunities after college, which should be the time for them to freely make choices that will set the foundation for the rest of their life (Dwyer et al., 2012; Houle, 2014). Instead, young adults ages 25 to 34 possess the second highest bankruptcy rates, right behind adults between ages 35 and 44 (Draut and Silva, 2004, as cited in Gudmunson et al., 2015).

### **Mental health, stress, and anxiety.**

The declining conditions of young adults' finances can have a devastating effect on mental and emotional health (Bemel et al., 2016; Dwyer et al., 2012). The primary links between the two are stress and anxiety (Brougham et al., 2011; Grable & Joo, 2006; HanNa et al., 2015; Norvilitis et al., 2006; Perna, 2010). While older adults site health as a major source of stress, young adults and middle-aged adults cite finances as their most significant source of stress (Wrosch, Heckhausen, & Lachman, 2000). Researchers in the United Kingdom linked financial stressors with increased anxiety among students (Andrews & Wilding, 2004). Finances are the second largest source of stress for college students, following academics, and one-third of students report that financial management is traumatic or difficult for them (HanNa et al., 2015). Student debt level appears to be directly related to self-reported financial stress levels (Grable & Joo, 2006; Norvilitis et al., 2003).

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Financial stress has a negative impact on students' academic performance as well as their physical health (Gudmunson et al., 2015; HanNa et al., 2015). Financial stress can lead to stress-related health problems, discussed later in this review, and unhealthy behaviors (Chan et al., 2012; HanNa et al., 2015; Hogan et al., 2013). Financial stress can lead to coping behaviors that may involve spending more money, thus increasing financial difficulty and creating a cycle that is hard to break (Hogan et al., 2013).

Financial stress not only impacts students, but the families who are supporting them as they attend school. According to a survey conducted by Sallie Mae and Ipsos (2016), families who have a child that is an enrolled student were more stressed about college costs than any other household expense. In fact, 30% of families reported being frequently or constantly stressed about education expenses, which was twice the percentage of the next highest budget-stress, medical and housing expenses. However, students were still twice as likely (39%) as their parents to be stressed about college expenses.

While stress tends to come from a single source, such as not being able to pay bills on time, anxiety is a more generalized sense of worry regarding one's financial situation as a whole (Archuleta et al., 2013). This anxiety does not always seem to stem from types of debt, or even total debt, though there is an existing relationship (Archuleta et al., 2013). Rather, it is tied more significantly to financial satisfaction, or one's general sense of well-being regarding finances, which lines up with the focus on generalization in the definition of financial anxiety (Archuleta et al., 2013). However, other research has linked credit card debt with increased anxiety levels (Drentea, 2000). Archuleta et al.

(2013) speculate that students do not feel the full weight of financial anxiety until after graduation when they realize the extent of the impact their debt will have on their lives.

Anxiety and stress are not the only major mental impacts that finances can have. Poor financial situations contribute significantly to depression levels as well (Andrews & Wilding, 2004). Compulsive buying behavior has also proven to lead to depression (Brougham et al., 2011). Additionally, Adams and Moore (2007) found that high-risk credit behavior was associated with depression. In extreme cases, this depression can worsen into suicidal thoughts and actions. Reportedly, 78% of students who have attempted suicide cite financial stress as a primary reason behind the attempt (Westefeld et al., 2005). There have been several recent reports of documented suicides by students with both credit card debt and student loan debt (Yang & Lester, 2016).

The effects of finances can spread into other psychological issues. Psychological burdens of debt can lead to a lack of motivation to succeed in other areas of life (Robb, Moody, & Abdel-Ghany, 2012). Compulsive buying tendencies can lead to feelings of intense guilt, which can then affect self-esteem and interpersonal relations (Brougham et al., 2011). High debt levels can also result in low self-esteem, low financial self-efficacy, and a decreased sense of financial well-being and security (Archuleta et al., 2013).

### **Physical health.**

Financial situations can even extend their influence to physical health, albeit a lesser impact than that of mental health (Bemel et al., 2016; Dwyer et al., 2012).

Durations of economic disadvantage (Graves & Savage, 2015), credit card debt (Adams & Moore, 2007; Joireman et al., 2010), financial illiteracy (Gudmunson et al., 2015), and poor budgeting practices (Archuleta et al., 2013) have all been linked with poorer

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physical health. Financial stress from these factors alone can lead to different forms of stress-related health problems, such as heart disease, high blood pressure, and obesity (Chan et al., 2012).

Apart from these, finances can contribute to physical condition through behaviors. Financial stress and poor financial attitudes have proven to lead to unhealthy behaviors. Nelson et al. (2008) found that the stress resulting from credit card debt can lead to reduced and insufficient physical activity as well as binge drinking. Problematic accumulation of debt has consistently been linked to drinking, usually excessive drinking (Adams & Moore, 2007; Hogan et al., 2013). Adams and Moore (2007) furthered this research and found relationships between credit card debt and drunk driving, use of amphetamines, and high body mass index due to overeating. They explain these behaviors as coping behaviors resulting from the weight of students' accumulated debt. Hogan et al. (2013) did find that some of these behavioral symptoms can be negated by increased focus on schoolwork and studying.

### **Social health.**

Another possible impact of financial circumstances is on social health (Bemmel et al., 2016). Social health is defined here as the quality of interpersonal relationships and ability to handle oneself in social situations. One of the most significant ways social health can be impaired by money is through compulsive spending. Compulsive buyers have reported strained relationships with family and friends, likely due to disapproval of the uncontrolled behavior (Brougham et al., 2011). While people who love to spend money struggle with relationships, people with a high love of money can also see changes in their social lives. The love of money can result in skewed priorities and an

unwillingness to help others in need, which greatly affects interpersonal behavior (Fatoki, 2015).

The greatest impact of finances on social health for students, however, relates to their dependency on their families. When students graduate college, the societal expectation is that they will pursue a career and gain independence from their parents. However, students with large amounts of debt may not be able to take this step (Houle, 2014). While college is intended to be the ultimate sign of social mobility and success (Dwyer et al., 2012), 85% of college graduates are moving back home after graduation (Avery & Turner, 2012). This can create strain on parent-child relationships as graduates yearn for independence while still relying on their parents' money to support them.

Long-term, finance will have an impact on romantic relationships as well. Addo (2014) found that an increase in total debt increased the odds of cohabitation, mostly in women. This indicates that young adults are making significant living decisions in order to increase the affordability of adulthood. Addo (2014) also found that, at least among women, financial characteristics were a key factor in marriage decisions. Economic hardship is a major source of disagreement and strain on marriages (Amato & Previti, 2003). Debt of at least \$10,000 has been shown to decrease the long-term probability of marriage by 7 percentage points (Avery & Turner, 2012). In one study, 36.7% of participants cited financial problems as a major contributor to divorce, with at least one partner from 55.6% of couples reporting it as a major source of conflict resulting in divorce (Scott, Rhoades, Stanly, Allen, & Markman, 2013).

### **College and career.**

Simply speaking, one of the greatest priorities in a student's life is their academics. Teenagers who choose to attend college after high-school are doing so with the intent of acquiring an education and earning a degree. However, financial situations can place many obstacles between the student and their diploma. Financial stress has been consistently linked with poor academic performance (Joo, Durband, & Grable, 2008; Pinto et al., 2001). Brougham et al. (2011) wrote that compulsive buying behavior can lead to lowered grades due to shifts in priority. Wharton (2007) reported that students who were stressed about money earned lower grades and enrolled in fewer credit hours. Adams and Moore (2007) found that students with high-risk credit behaviors tend to have lower grade point averages.

Hogan et al. (2013) proposed two ways that financial trouble can affect academics. First, as discussed earlier, adverse financial conditions can lead to anxiety, which can lead to inappropriate coping behaviors such as drinking or excessive shopping. This can detract from focus on course loads while also raising credit card balances and heightening anxiety even more. Second, students may attempt to alleviate their financial burdens by working more hours, which can take away from academics. Working more tends to lead to less desirable academic behaviors such as a lack of studying, taking less courses, and poor attendance. Ultimately, the student's grade point average is lowered and anxiety is again heightened, resulting in a cycle that many struggle to escape from (Hogan et al., 2013).

An unfortunate result of this adverse effect is the inability to complete college. Students struggling financially and academically are almost immediately put in the

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statistic of those least likely to graduate. Students from advantaged financial backgrounds are significantly more likely to graduate (Avery & Turner, 2012). Additionally, students with higher grade point averages are more likely to graduate (Avery & Turner, 2012). On the other hand, according to Avery and Turner (2012) students who work more than 20 hours a week are significantly less likely to graduate, likely due to the strains it places on students as mentioned above.

Because of their statistical chance of coming from a disadvantaged economic background, black students are much less likely to finish their degree; in fact, around 70% of black students who borrow money for school never receive their degree (Jackson & Reynolds, 2013). Students who come from impoverished backgrounds have lowered educational attainment, as in they don't make it as far as their peers in their educational program (Graves & Savage, 2015). Along this line, low-income, first-generation college students are a growing population of entering students, but universities are struggling to retain these students long term (Mamiseishvili, 2010). Engle et al. (2008) reported that 60% of low-income, first-generation students drop out of college after their first year as they struggle to acquire the same education as their financially advantaged peers.

While the research presented earlier showed that many students struggle academically because of the work hours they accumulate trying to compensate for their debt burdens, further research indicates that their efforts may still not be enough. Many students drop out of college primarily to work more hours to manage their debt levels (Roberts & Jones, 2001). Even borrowing can be an insufficient method for finishing school, as one fifth of student borrowers will end up dropping out of college before graduating (Goetz et al., 2011). In general, (Robb et al., 2012) found that students

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suffering from “the psychological burden of having debt” (“Abstract,” para. 3) struggled to persevere through their education and complete their degrees.

There has been research to indicate that the negative effects of student employment can disappear with the strength of the student’s focus on their academics. In other words, if working students still place school at the top of their priority list, they can still succeed in school and reach graduation alongside their peers (Mamiseishvili, 2010). Additionally, while students who borrow may still find themselves dropping out of college, research does indicate that education loans can have a positive effect on graduation (Dwyer et al., 2012). Dwyer et al. (2012) write that student loans submit to the law of diminishing returns in that some loans can facilitate education and graduation for students who wouldn’t otherwise have had the opportunity, but taking on too much debt can eventually harm students’ circumstances. Another inconsistency identified by Dwyer et al. (2012) is that debt effects on graduation may only effect students in public universities. This immunity has been credited to the advising resources available to private university students. These notable findings indicate that the relationships between finance and graduation is not easily explained with simple linear models. Rather, a wide variety of factors work together to influence the full impact that money can have on college completion.

Though it’s been established that graduation is not guaranteed and is a feat to be celebrated, students who manage to reach this milestone are still not free from the effects of their finances. Rothstein and Rouse (2011) found evidence that debt levels impact student career choice. This can be positive in that they aim for higher-paying jobs, but this can also deter students from lower-paying dreams, such as teaching. However,



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Brougham et al. (2011) wrote that students with compulsive buying tendencies and/or poor credit can even be denied jobs because of their inability to handle their money. This disadvantage only hinders the success of graduates even further, as young adults with postsecondary education are currently struggling to find high-paying full-time jobs (Houle, 2014).

### **Future financial difficulties.**

How students handle their money today has tremendous implications on their future financial conditions. Money habits and debt have a way of following an individual for extended periods of time. When financial troubles prevent students from finding gainful employment, this can lead to struggles on its own. Borrowers who were unable to complete their degree are more likely to be unemployed and default on their loans (Jackson & Reynolds, 2013). Even graduates with debt or poor credit can struggle with finding employment (Brougham et al., 2011; Goetz et al., 2011; Lyons, 2004). As these young adults wrestle with the challenges of being unemployed or underemployed, their ability to repay their debts is hindered, and they may find themselves taking on more debt to compensate for the lack of income (Archuleta et al., 2013).

Beyond issues of employment and income, young adults beginning with debt and poor financial management skills are struggling to get started in other areas of life. Students and graduates have a difficult time obtaining mortgages and small business loans (Jackson & Reynolds, 2013). Brougham et al. (2011) also found that compulsive spenders can face the long-term effect of being denied a home loan. Young adults with poor credit histories are often unable to rent an apartment or qualify for various loans (Goetz et al., 2011). The negative connotations and consequences of debt will follow

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young adults as they try to navigate life, both into mid-life and even old age (Archuleta et al., 2013). With 25 million Americans over the age of 60 living at or below 250% of the federal poverty level and a minority of adults expecting to have enough money for retirement, students should be even more fearful of becoming one of these statistics (Joireman et al., 2010; National Council on Aging, 2015).

Additionally, the financial practices that young adults establish as students often follow them into the workforce after graduation (Volpe et al., 2006). Joo, Grable, and Bagwell (2003) confirmed a positive relationship between credit card debt accumulation and general negative financial behaviors. Debt also has a tendency to lower one's sense of financial well-being and security, a feeling that is not easily recovered from (Norvilitis et al., 2006, 2003). These work together to create a profoundly negative psychological impact that will further decrease an individual's financial self-efficacy, or one's confidence in their ability to manage their personal finances (Lange & Byrd, 1998). The problem is, studies have found that the more debt a student accumulates, the higher their tolerance towards future debt increases (Davies & Lea, 1995).

### **Conclusion**

When it comes to money, college students have a bit of a reputation involving low income, irresponsible spending, and overwhelming debt loads. The data reveals that, though a moderately surprising number of students do not fit this mold, this is still the reality for the majority of America's college students. While commonly dismissed as a product of youth and immaturity, researchers have discovered over countless studies that there is more to the story.

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Students' financial perceptions, habits, decisions, and circumstances are all affected by an expansive list of variables. Gender, age, race, and ethnicity often impact how young adults approach finances. Students with different parental backgrounds begin their financial journeys from widely differing starting points. Once students make it to school, their chosen major of study can impact that financial exposure they receive, thus affecting their chances of improving their financial literacy and aspirations. There's even multi-dimensional relationship between academic performance, hours working, and debt levels. Students face outside financial influences, from peers to the credit card industry, and internal influences, from self-esteem to value systems.

Many researchers have gone on to study the financial consequences likely to befall today's students. Perhaps most commonly, the vast majority of students face immediate stress-related health concerns, and finances are at the top of the list for reported causes. Ultimately, financial behaviors can disrupt relationships and social health, along with careers and success in other areas of life. Along this line, young adults who can't learn to manage their money are more likely to fail to plan their retirement and end up struggling to stay afloat financially in their senior years.

Clearly, the ability to understand how college students' approach and understand money is a significant part of setting up the next generation for success. While many factors affecting finances are out of their control, students can take charge of many areas of their lives in order to better their circumstances, if only they are equipped to do so. Research in the fields of financial management, education, influences, and consequences is exhaustive, but there are still major gaps in the literature. It isn't clear how spirituality and faith backgrounds can affect perceptions and decisions relating to money.

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Additionally, there is little research into narrower topics, such as personal value systems or college students' marital status, that could establish relationships between even more variables.

This thesis was an attempt at a comprehensive literature review that could tie together dozens of studies in the area of financial management among college students and act as a starting point for related research. However, there are potentially hundreds more studies on this subject matter, and hundreds more on the periphery that could explain some of the remaining mysteries. It is beyond the scope of this thesis to attempt to draw together even the majority of this research, and this limitation must be factored in when evaluating the effectiveness of this review.

Additionally, there are limitations inherent to each individual study on finances that has a widespread effect in this field of research. Financial studies rely heavily on survey, and with this comes self-reporting biases and perception errors. People may feel guilty reporting their actual finances or struggles, and are likely to report their circumstances more favorably than what is reality, despite anonymity. Additionally, people, and especially young adults, are susceptible to overly optimistic perceptions about financial capabilities, which can affect research that attempts to project such capabilities. These limitations, while not discrediting to the research, are significant enough to be a necessary consideration when evaluating any of these studies.

In the end, this literature review told the story of college students' finances. From the struggle to afford the college lifestyle to graduation and on through retirement, researchers have been able to prove relationships at independent points on this timeline. Perhaps, one day, this won't have to be their story. In every study, there is a minority of

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students who aren't included in the negative reports. Some defy statistics, and others can certainly do the same. Understanding what college students are facing and why is the first step to recovering the financial state of our graduating generations.

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